

Alberta

Automobile Insurance Rate Board – 2007 Annual Report

For the Year Ended December 31, 2007

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LETTER OF TRANSMITTAL AND ACCOUNTABILITY STATEMENT

The Honourable Iris Evans
Minister of Finance and Enterprise
408 Legislature Building
Edmonton, Alberta T5K 2B6

Honourable Minister:

The 2007 Annual Report of the Alberta Automobile Insurance Rate Board (AIRB) was prepared under the Board's direction. The information presented reflects the actual activities, results and performance of the AIRB for the year ended December 31, 2007. All significant decisions, events and identified risks as of December 31, 2007 have been considered in preparing this report.

As Chair, I am accountable for the contents of this report, where this report contains estimates and interpretive information it represents the best judgment of management.

Overall I am pleased with our performance in 2007 and we pledge our continued support to your office in pursuing the successful administration of the legislation as it relates to the Board.

On behalf of the Board and staff of the AIRB and pursuant to the *Insurance Amendment Act (No. 2)*, 2003, section 658(1), I am pleased to submit the third Annual Report of the Alberta Automobile Insurance Rate Board, for the year ended December 31, 2007.

Sincerely,

Original signed by:

Alfred Savage
Chair
Automobile Insurance Rate Board

(AIRB)

AUTOMOBILE INSURANCE RATE BOARD

VISION

An efficient and effective automobile insurance market with fair and predictable rates.

MISSION

As an independent body, the AIRB will regulate rating programs of Alberta automobile insurers to ensure premiums are fair and predictable. The Board will also ensure consumers have access to information to facilitate informed choices.

VALUES

- Respect
- Accountability
- Integrity
- Excellence

Automobile Insurance Rate Board

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For an electronic copy of this report,
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CHAIR'S MESSAGE

On behalf of the Alberta Automobile Insurance Rate Board (AIRB), I am pleased to present our 2007 Annual Report.

With the belief that improved competition will increase choice and result in lower premiums to the consumer, the Board's focus shifted towards encouraging a more competitive market.

In early 2007, the Board completed its review of the profit provision allowed insurers as part of the industry-wide adjustment.

As an independent Board, we adjust the rates on an annual basis for basic coverage. To this end, the Board continued with the industry-wide adjustment process, meeting with stakeholders and hearing from consumers.

The Board played a key role in the Government's Premiums Regulation review and believes that the amendments, when approved, will reduce uncertainty in the market and, thereby, support greater competition. The Board also reviewed its Fees Regulation and has recommended changes to government that will improve administrative efficiencies for both industry and the Board.

During 2007, the Government of Alberta completed a governance review of its agencies, boards and commissions. The AIRB monitored this review closely and as part of this process completed a self-assessment and peer review which supported the Minister's decision in the reappointment of Board members whose terms were expiring in October 2007.

Early in 2008 prior to the completion of this report, the Court of Queen's Bench struck down the minor injury cap on non-economic damages that was implemented as part of the 2004 reforms. This issue will be the most significant challenge the Board will face in 2008 as removal of this cap will introduce additional costs into the system which will add pressure to increase automobile insurance premiums.

During the past three years, we have been building a strong team and I am confident we will continue to play a significant role to ensure all Alberta drivers have access to a competitive market that provides for fair and predictable auto insurance premiums.

Sincerely,

Original signed by:

Alfred Savage

Chair
Automobile Insurance Rate Board

REPORT FROM THE EXECUTIVE DIRECTOR

The year 2007 was one of significant achievement as the Board completed its annual industry-wide adjustment process, eliminated the Grid territorial differences between Calgary and Edmonton, set a profit benchmark, contributed to the Government's review of the Premiums Regulation, reviewed the Fees Regulation, participated in the first Canadian Auto Insurance Rate Regulators forum, recommended to the Minister and received an expanded mandate around public education, reviewed applications and completed its 2006-07 fiscal year under budget.

Annual Industry-wide Rate Adjustment

The Board is required under Section 656 of the *Insurance Act* and Section 4 of the *Automobile Insurance Premiums Regulation* to conduct an annual adjustment process that uses the industry-wide experience to determine whether premiums for basic coverage on private passenger vehicles should be adjusted. The Board requested its actuary, Oliver Wyman to complete an analysis of the industry-wide experience for 2006. Stakeholders were given the opportunity to respond to the analysis at public meetings that were held over two days, June 18 and 19 in Edmonton. During the public hearings, eleven stakeholders presented to the Board and four written submissions were given to the Board. The chart shows the average written premium for 2006 as reported by the General Insurance Statistical Agency (GISA) statistical data broken out by basic and additional coverage. See page 5 for explanation of the Board's role in regulating and monitoring premiums.

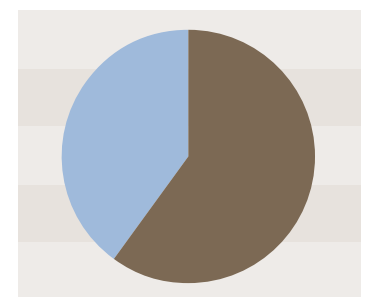
The Board considered the information received through submissions and the public meetings in conjunction with its actuarial analysis and based on this input and the rate level indication being close to adequacy, the Board on July 31, 2007, issued Order 1-07 to hold premiums for basic automobile insurance in Alberta at 2006 levels. The previous adjustment ordered for November 1, 2006 was for a 3% decrease. Since the introduction of reforms in October 2004, the Government and Board mandated reductions in premium level for basic coverage totalling 18%.

Grid Territorial Differential Eliminated

In October 2004, the automobile reforms resulted in a Grid rating program that sets maximum premiums for basic coverage and generally applies to drivers who are inexperienced or with poor driving records. This Grid established three rating territories, Edmonton, Calgary and remainder of Alberta. The Grid based premiums for the Calgary Territory were set 10% higher than the premiums for the Edmonton Territory. The Automobile Insurance Premiums Regulations required the Board to phase out this differential by November 1, 2007. The Board completed this transition on schedule with Edmonton and Calgary Territories now at par. The remainder of Alberta Territory remains at 20% less than the Calgary/Edmonton Territories.

In 2006, premiums for basic coverage for 10.8% of vehicles insured were capped by the Grid. The vast majority, 89.2% of vehicles were rated at premiums below the Grid. See the AIRB website for more details on the Grid rating program.

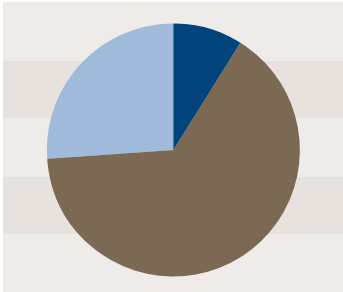
2006 Private Passenger Premium



Board Monitors Additional Coverage \$413
Board Regulates Basic Coverage \$612

Source: GISA statistical data

Distribution of Premium Dollar for 2006 Private Passenger Vehicles



- Profit 9%
- Administrative Expenses 26%
- Estimated Claims 65%

Source: GISA statistical data and IBC Automobile Expense Survey

Estimated claims percentage is the comparison of estimated claims to earned premium from the GISA statistical data. The administrative expense percentage is from the 2006 IBC automobile expense survey. The balance is assigned to profit.

Profit Benchmark Revised

The three components to the premium dollar as noted in the chart on the left, are estimated claims, administrative expenses and profit for 2006. Though the smallest portion, the latter is the most controversial. In order to maintain a competitive market and retain and attract insurers, Alberta must provide for a competitive return on capital investment or investors will move their investment to other markets. During 2007, the Board deliberated on whether the current 5% of premium profit provision adequately covers insurers’ cost of capital and, if not, what might be an appropriate provision. The decision made by the Board was that the profit provision would remain unchanged at 5% for the 2007 industry-wide adjustment, the profit provision increase to 7% for 2008 barring any significant changes to the current economic environment and that an ongoing review take place commencing with the 2009 industry-wide adjustment. In 2007, the Board began to more closely monitor expected results to actual.

Premiums Regulation Review

The Board participated with other industry stakeholders in the Government’s review of the Premiums Regulation. The recommendations from that process, if approved, would change the way premiums are regulated from an annual “one-size-fits-all” industry-wide adjustment to an individual company application process which is expected to reduce market uncertainty. With the new regulation the Board will maintain its approval authority; however, it will be able to respond in a timelier manner to changes in market conditions and the needs of a competitive market place.

Fees Regulation Review

As part of its regular business the Board reviewed the Automobile Insurance Rate Board Fees Regulation. Recommendations that have been forwarded to Government would improve administrative efficiencies for both industry and the Board. These changes include the elimination of the \$500 application fee for rate changes and the ability to return Board surpluses to industry.

1st Canadian Auto Rate Regulators Forum

The AIRB sent representatives to the first annual Canadian Auto Insurance Rate Regulators Conference hosted by the New Brunswick Insurance Board in Saint John. This conference was the result of a desire on the part of auto regulators from across Canada to develop a forum for Board and Staff training and networking on industry issues. The conference was a success culminating in agreement that the conference become an annual event and that regulators begin the process to formalize a national association for automobile insurance rate regulators. Alberta will host the 2008 conference from October 26-29th in Banff.

Public Education Mandate

In October, the Minister extended the Board’s mandate to include public education and information related to automobile insurance. This project has been included in the Board’s 2008-10 Business Plan and will be under development in 2008.

Board Applications

As required under the Automobile Insurance Premiums Regulation, the Board reviews and rules on applications under Sections 6, 10 and 19.

- **Section 6** allows insurers to apply to the Superintendent of Insurance for a review of their private passenger rating program for basic coverage, which may be directed to the Board for review. Section 6 applications totalled 17 in 2007.
- **Section 10** requires new insurers entering Alberta to obtain the prior approval of the Board for their private passenger rating programs for basic coverage.¹ There was one Section 10 application in 2007.
- **Section 19** is a transitional provision from the former *Insurance Act* that requires insurers to obtain prior approval to establish new or revise existing rating programs as they relate to third party liability and accident benefits coverage for other than private passenger vehicles. There were a total of 20 applications under Section 19 in 2007.

As required under the Automobile Insurance Premiums Regulation, the Board receives written notice for Sections 5 and 9.

- **Section 5** requires written notice to the Board if the company adjusts rating variables for basic coverage on private passenger vehicles. The overall adjustment must be revenue neutral with no relativity increasing by more than 10% and the increase for any one policyholder not exceeding 10 per cent. The Board received 11 Section 5 notices in 2007.
- **Section 9** requires written notice to the Board of changes to their rating programs for additional coverage.² The Board received 46 Section 9 notices in 2007.

See Appendix II for more information on applications.

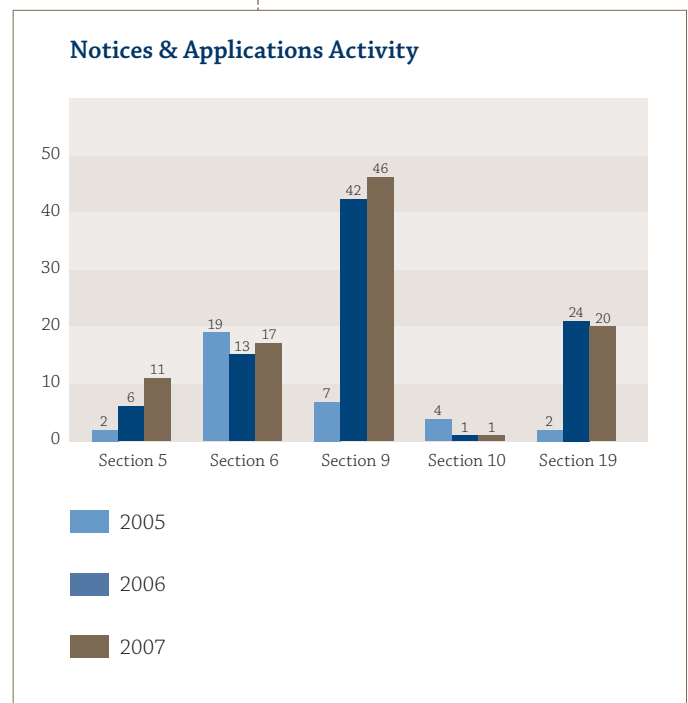
Fiscal

The AIRB's fiscal period is that of Government, April 1 to March 31.

For the fiscal period April 1, 2006 to March 31, 2007, Board operations resulted in a surplus of \$167,583 mainly as a result of vacant positions and reduced requirements for external actuarial analyses. The Board is fully funded by industry through an assessment to insurance companies provided under the Fees Regulation. With the Board's recommendations related to the Fees Regulation, surpluses such as this will be returned to industry as an offset to future levies. Further financial information is available under Statement of Operations and Surplus (see page 8).

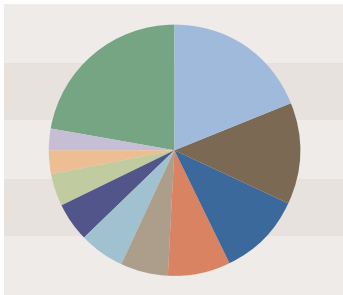
¹ Basic coverage is third party liability and accident benefits coverage.

² Additional or optional coverage includes collision, comprehensive or specified perils and all endorsements including underinsured motorist coverage.



Source: Superintendent of Insurance

2006 Distribution of Total Automobile Insurance Premium



- ING Canada 19%
- Wawanesa 13%
- TD Meloche Monnex 11%
- The Co-operators 8%
- Royal & SunAlliance 6%
- Aviva Canada 6%
- Alberta Motor Association 5%
- Economical Group 4%
- Dominion of Canada 3%
- State Farm 3%
- All other (57) 22%

Source: Superintendent of Insurance

Rates

Insurers conducting business in Alberta are required under the *Insurance Act* to report their experience to a Canadian statistical plan. The results are compiled annually in the General Insurance Statistical Agency (GISA) published statistical exhibits that are then analyzed by the Board’s consulting actuary. The most recent available results are for 2006.

Claims experience was unfavourable for a number of years into the early 2000s, particularly for private passenger vehicles. The phenomenon was attributed to the growth in compensation for bodily injury claims under third party liability and, to some extent in later years, under accident benefits coverage. Premiums for third party liability and accident benefits rose in response to rising claim costs. Pricing for all categories of general insurance hardened in the latter part of 2001 and that course continued until October 30, 2003 when rates were frozen for automobile insurance. The freeze ended on November 1, 2005.

The average premium for basic coverage on private passenger vehicles as shown in Appendix III has decreased each year since 2004, while the average premium for additional coverage has increased. The average total premium decreased to \$1,077 in 2004 and to \$1,025 in 2005 and 2006.

Consumer Representative

The Consumer Representative, Ms Merle Taylor, conducted an independent study on consumers’ perspectives on automobile insurance in Alberta and presented her findings to the AIRB at the public meetings in June. Ms Taylor captured consumer response and feedback by conducting sessions in four centres around the province where insurance brokers and the public were invited to discuss their experience in the market. Consumers also contacted her by e-mail and letter with their specific concerns. Her report can be viewed on the AIRB website.

Market

In 2006, the automobile insurance industry collected \$2.75 billion in premium from which they expect to pay \$1.67 billion in claims.

Based on the 2006 Alberta Superintendent of Insurance Annual Report, the most recent data available, 67 automobile insurers were operating in Alberta. Four insurers represented 51% of all written premium, up from 48% in 2005 and 38% in 2002. The chart to the left identifies the distribution of written premium by corporate group in Alberta for 2006 (some corporations operate more than one insurer).

It is a useful exercise to review market conditions for recent years and to speculate on the immediate future. A series of graphs along with comments have been provided in Appendix I.

Currently, the issues at the forefront of the market include high risk pricing and the Minor Injury Regulation. It is yet undetermined whether or not those drivers with claims and convictions are priced adequately. The constitutional challenge to the Minor Injury Regulation has created some uncertainty that will continue until the final outcome is known.

Looking Ahead to 2008

The AIRB will be:

- Redeveloping its website to better serve and educate the public on automobile insurance rates in Alberta.
- Completing a branding exercise to develop its own logo and identity. The purpose of which is to impress upon Alberta's drivers that there is a Board that is looking out for their interests.
- Moving forward on our expanded mandate, Public Education.
- Hosting the 2nd annual Canadian Automobile Insurance Rate Regulators Conference.
- Working with rate regulators across Canada towards the formation of an effective rate regulators organization.
- Continuing to work towards improved data collection to support evidence based decision making.

For 2008, the most pressing issue will be the impact of the repeal of the cap on non-economic damages for minor injuries on the AIRB decision for the industry-wide adjustment and, ultimately, on premium stability.

Pending Issues

As noted in the Chair's message, the Court's decision to remove the minor injury cap on non-economic damages that was implemented as part of the 2004 reforms will be the most pressing issue the Board faces in 2008. With an appeal set for September 2008, and the Board's requirement to announce the industry-wide adjustment by August 1, 2008, future premium stability is of great concern.

This cap was a major contributor to the 18% reduction in premiums for basic coverage over the past three years.

The AIRB has been fortunate to retain the calibre of staff it has and I am appreciative of their expertise and support to the Board and myself.

Sincerely,

Original signed by:

Del Dyck

Executive Director
Alberta Automobile Insurance Rate Board

STATEMENT OF OPERATIONS AND SURPLUS

For the period April 1, 2006 to March 31, 2007

	2006-07 Actual	2005-06 Actual
Revenue:		
Annual Industry Levy	\$962,538	\$1,065,226
Actuarial Services	91,955	10,744
Application Fees	23,000	4,500
Other	7,441	610
	1,084,934	1,081,080
Expenses:		
Operations	435,744	568,085
Actuarial and Contract Services	413,351	459,351
Board Honoraria and Expenses	68,256	95,735
	\$917,351	\$1,123,171
Surplus/(Shortfall)	\$167,583	(\$42,091)

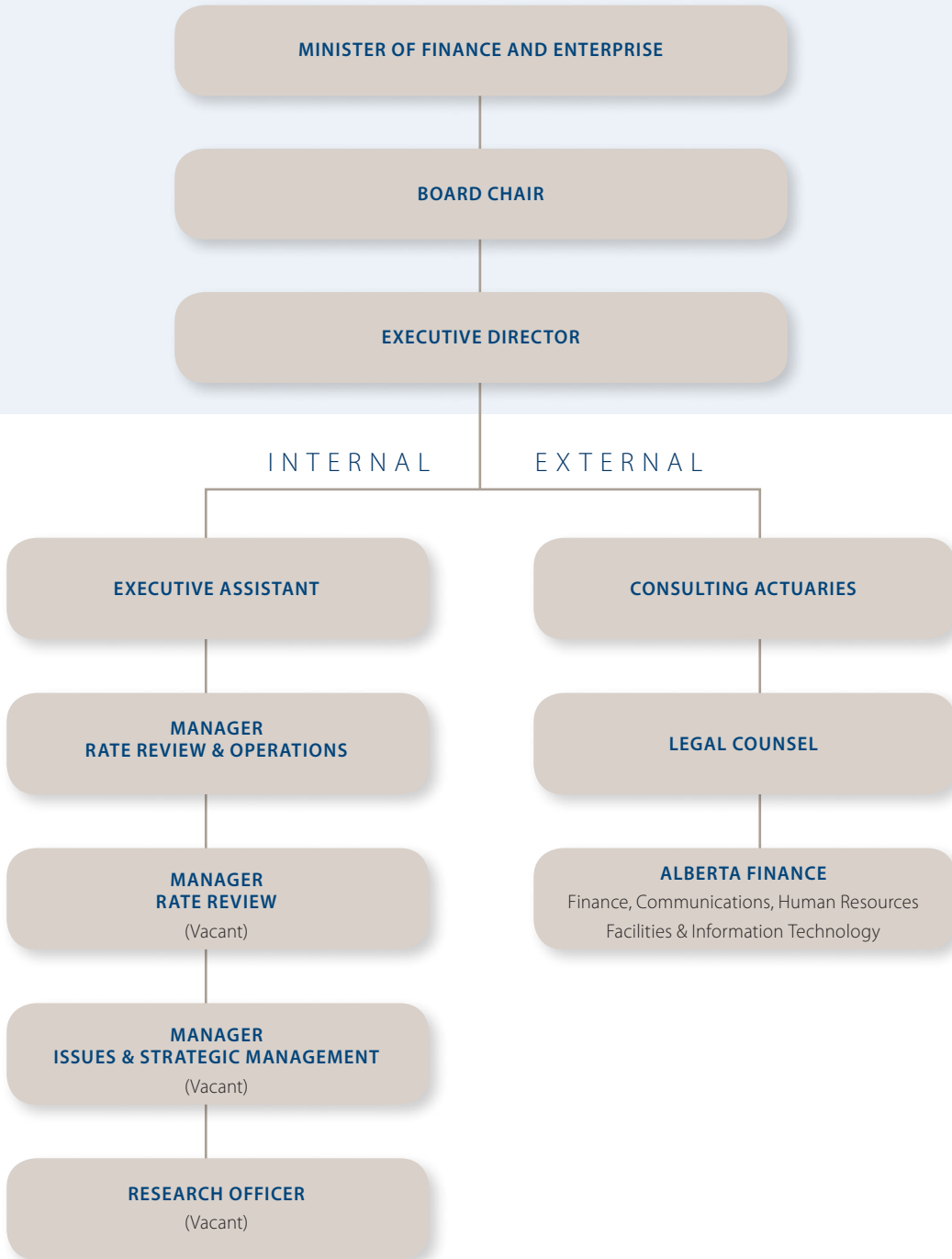
The AIRB's fiscal year reflects that of the Government, April 1 to March 31. As per Alberta Regulation 179/2005, Automobile Insurance Rate Board Fees Regulation, the Board is funded by industry in the following three ways:

- Annual Industry Levy which represents the Board's annual budget less an amount estimated for application fees and recovery of actuarial costs. The annual industry levy is shared by each insurer based on their actual direct premiums written in the prior year.
- Application Fees which are charged to the insurer at a rate of \$500 per application
- Actuarial Services which are charged to the insurer as a recovery of specific actuarial services that are contracted in order to complete the analysis of an application

Board honoraria were remunerated in accordance with Schedule 1 of the Part-Time Committee Remuneration Orders in Council 103/2006 and 466/2007. Expenses were remunerated in accordance with Corporate Human Resources directive on subsistence and travel expenses.

ORGANIZATION CHART

Alberta Automobile Insurance Rate Board 2007



The AIRB operates as an independent Board, with 6 support positions. As a result of organizational changes, 3 of these positions remained vacant for 2007. Operational support such as financial, human resource, communications, information technology and facility services are provided through Alberta Finance. The Board's legal and actuarial services are contracted through external providers.

CORPORATE GOVERNANCE

Governance defines the roles, relationships, powers and accountability between the Government, the Board and Management.

Relationship to Government

The Minister of Finance and Enterprise and the Government of Alberta, through legislation (*Insurance Act*), established the Alberta Automobile Insurance Rate Board (AIRB or the Board) in October, 2004 as an independent, quasi-judicial regulator. In this capacity, the AIRB is responsible for regulating automobile insurance premiums in Alberta. The Board, through its functions and statutory duties and responsibilities, serves all Albertans – the public, industry and Government. In addition, the Board must exercise and perform any other powers and duties assigned to it by the Minister or prescribed by the regulations.

Board decisions regarding applications, premium levels and other related areas are made independently of Government and pursuant to the AIRB's enabling legislation.

As part of Government's "Tools for Accountability" the AIRB is required to submit this Annual Report along with its Business Plan to the Minister on an annual basis.

Board Governance

The Board approves the corporate vision, mission, values, strategic priorities and goals that guide the AIRB. The Board sets goals for performance as part of the business planning process and these goals are the basis upon which accountability and performance is evaluated.

The AIRB's membership consists of 7 members appointed by the Lieutenant Governor in Council, a consumer representative appointed by the Minister, and the Superintendent of Insurance who is a non-voting member of the Board. In total the AIRB Board consists of 9 members with a broad range of expertise and experience. A Board member's term of office must not exceed 3 years; however, a Board member may be reappointed for 2 additional terms. Limits on reappointment do not apply to the Chair and the Consumer Representative.

The *Insurance Act* provides for a chair and a vice-chair as appointed by the Lieutenant Governor in Council. The Board holds regular monthly meetings to deal with administrative issues of the Board and otherwise exercise its mandate. In addition, it holds public meetings for the annual industry-wide adjustment process.

The Board's governance processes and guidelines outlining how the Board will carry out its duties are in keeping with the recently approved Public Agencies Governance Framework.

Charter of Expectations

In 2007 the Board adopted the following guiding principles which provide an understanding of the roles, expectations and responsibilities of each Board member.

- Assume with other Board members the stewardship role of supervising the management and business affairs of the AIRB.
- Act in the highest ethical manner and with integrity in all personal, business and professional dealings.
- Become knowledgeable about the AIRB's business, the environment in which it operates and the emerging trends and issues in the automobile insurance industry
- Commit enough time and sufficient attention to the work of the AIRB as may be required from time to time.
- Act in a way that contributes to the effective operation of the Board.

Skills Matrix

In 2007 the Board also set out a skills matrix to identify the set of skills and experience that is required within the group to effectively carry out the Board's mandate.

Specialty Skills (one or more individuals bring these skills to the Board)

- Governance
- Insurance industry expertise
- Financial expertise
- Legal expertise
- Actuarial expertise
- Consumer relations

All candidates for Board member shall be respected in his/her field, have a proven track record of achievement in their field, and shall most likely have had previous direct experience with boards and governance. The board shall be diverse in its membership representing the community it serves.

BOARD MEMBERS

Chair



Alfred H. Savage

**Retired, Senior Executive
Calgary**

Vice Chair



Harry Gough

**Lawyer, Private Practice
Drumheller**



David G. Marshall

**Chartered Accountant
Calgary**



William Moore

**Staff Actuary, Finance and Enterprise
Calgary**



Patti Grier

**Vice President
Calgary Health Region
Calgary**



Lewis Klar

**Professor, Faculty of Law
University of Alberta
Edmonton**

Board members are drawn to represent various geographical regions of the province and for a range of expertise they bring to the organization. The Board held 7 meetings in 2007 to deal with administrative issues of the Board and otherwise exercise its mandate. In addition, there were two days of public meetings for the annual adjustment process.

*Consumer
Representative*



David White

**Financial Advisor
Edmonton**



Dennis Gartner

**Superintendent of Insurance
Edmonton
Non-voting member**



Merle Taylor

**Management Consultant
Edmonton**

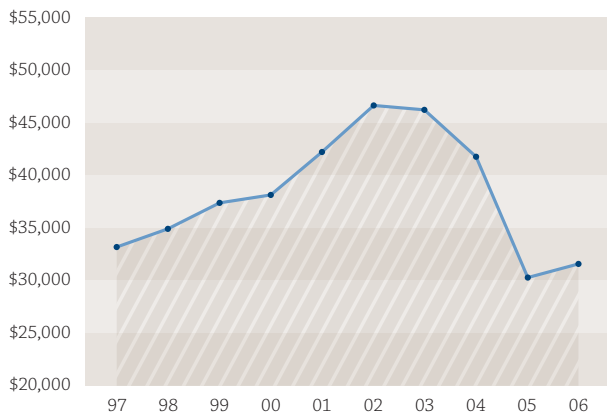
APPENDIX I MARKET

In 2006, the automobile insurance industry collected \$2.75 billion in premium from which they expect to pay \$1.67 billion in claims. A large portion, \$2.01 billion of that premium is attributable to private passenger vehicles that will incur an estimated \$1.31 billion in claims.

It is a useful exercise to review market conditions for recent years and to speculate on the immediate future. A series of graphs are included to complement the review. The most recent complete data available is for 2006. All dollar amounts for claims and premiums are in nominal dollars (unadjusted for inflation).

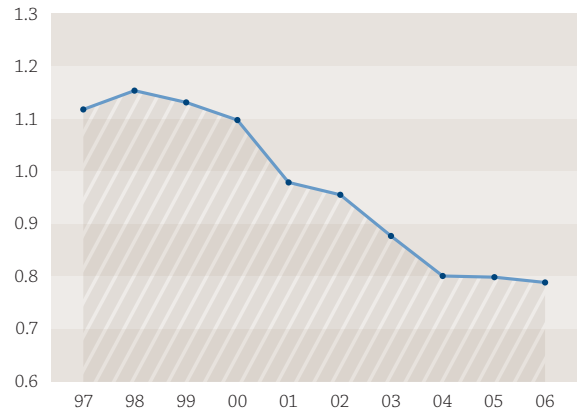
Until the Freeze Order in October 2003, premiums for third party liability and accident benefits on Private Passenger vehicles were increasing in response to claims experience. Collision and comprehensive coverage generally yield satisfactory results, which in part offset adverse results for third party liability and accident benefits.

Figure 1 – Bodily Injury Severity



Source: GISA Statistical Exhibit

Figure 2 – Bodily Injury Frequency



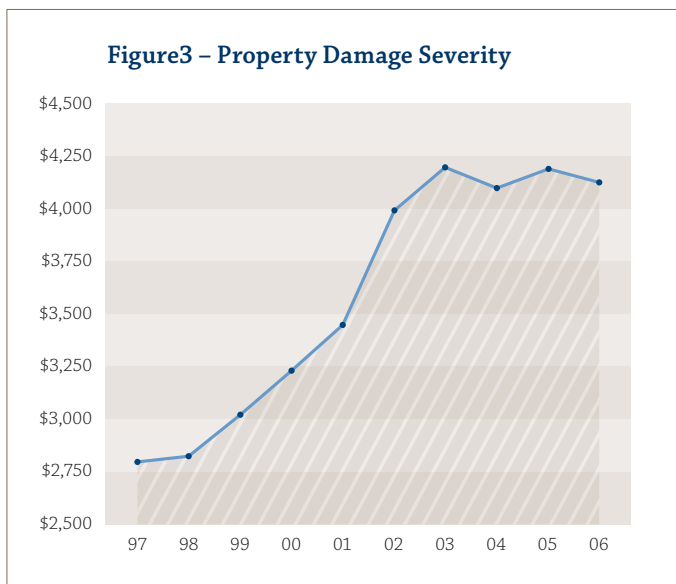
Source: GISA Statistical Exhibit

Third party liability coverage that responds to damages for which the insured is legally liable has two components, bodily injury and property damage. Figure 1 shows average claim costs for bodily injury for the ten year period 1997 to 2006. Bodily injury claims can take five or more years to finalize and, therefore, the figures for more recent years are best estimates. After an almost steady upward spiral dating back to the mid 1980s,

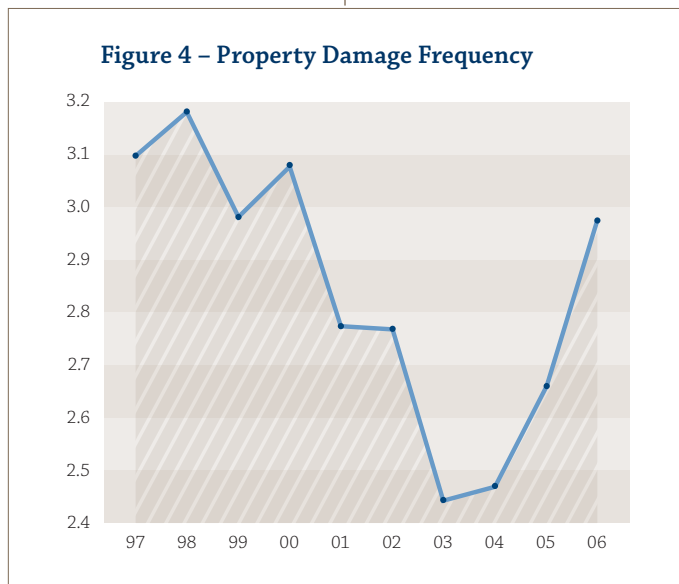
the average cost of bodily injury claims peaked in 2002 and 2003 at over \$46,000. There is a drop to \$41,000 for 2004 and then to 31,000 by 2006. The cap on non-economic damages for minor injuries came into effect for the fourth quarter of 2004, having some impact on average claims for that year and then a greater impact in 2005, the first full year of operation. There is a slight uptick for 2006 which would be expected due to ordinary inflation. Figure 2 addresses how many claims occurred for each 100 vehicles insured. After a long, steady climb, frequency of injury claims peaked in 1998. There are noticeable drops in frequency in 2001 and then in 2003 and 2004. The decreases in frequency that tend to predate the changes to the automobile insurance product occurred across North America. There has been speculation as to the reasons though the phenomenon is not clearly understood. The unexpected and unexplained reversal in claim frequency contributed to recent industry profits.

Bodily injury claims made up over 80% of third party liability claim costs by the end of the 1990s but settled back to two thirds by 2006.

Figure 3 shows that property damage average claim costs increased steadily through 2003 and then stabilized through 2006 at \$4,100 to \$4,200. Figure 4 shows an overall decline in claim frequency through 2003 that would offset the increasing severity of claims. However, 2005 and 2006 show sharp increases in frequency of claims, raising speculation as to whether bodily injury will follow. Trend for bodily injury claims can lag that for property damage.



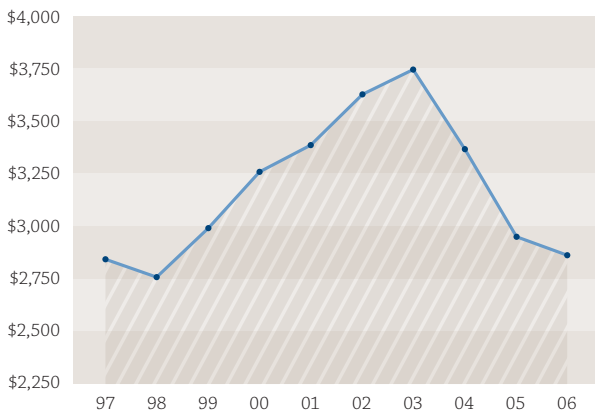
Source: GISA Statistical Exhibit



Source: GISA Statistical Exhibit

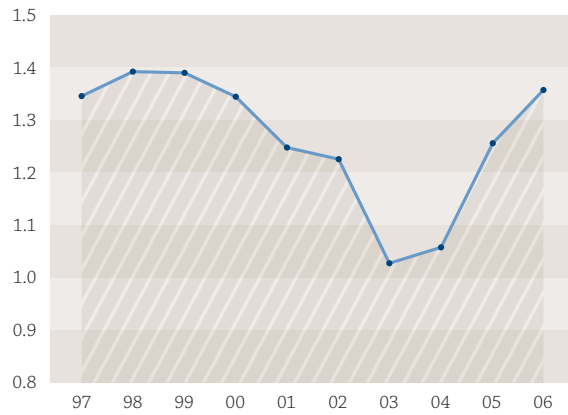
Accident benefits are the other coverage that relates to bodily injury; it responds to the insured's injuries regardless of fault. Figure 5 shows the average cost of claims increasing through 2003 and then declining for 2004 through 2006. The recent decline is counter to expectations as the changes to coverage as of October 2004 increased medical coverage and made benefits more accessible. Figure 6 relates to the frequency of claims per 100 vehicles insured; there is a decline through 2003 followed by increases for the past three years that could reflect increased accessibility.

Figure 5 – Accident Benefits Severity



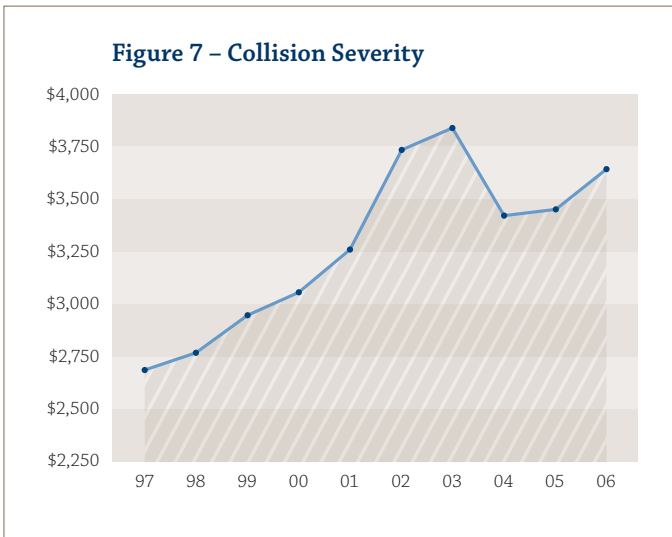
Source: GISA Statistical Exhibit

Figure 6 – Accident Benefits Frequency

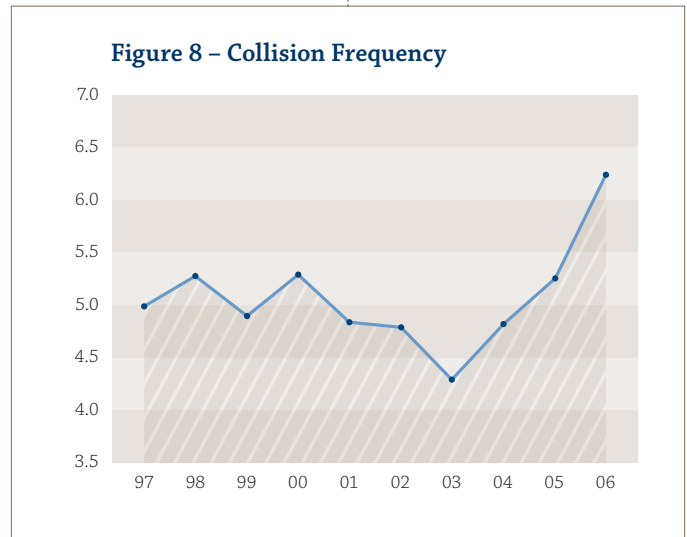


Source: GISA Statistical Exhibit

The remaining coverage is optional coverage for damage to the insured vehicle. Figure 7 shows the average claim cost for collision (impact with another object) increasing steadily until 2003 with some relief for the past three years. Claim severity started to climb again in 2006 which has been attributed to increases in labour rates for body shops and delays in repairs resulting in higher costs for rental of substitute vehicles. Those inflationary factors are expected to continue to impact 2007 results. Figure 8 relates to the frequency of collision claims for each 100 insured vehicles. There is some fluctuation over the early years shown; after bottoming in 2003, there has been a steady increase with that for 2006 being the most acute. Frequency began to creep up in other jurisdictions in recent years but the magnitude of the increase for 2006 was peculiar to Alberta.

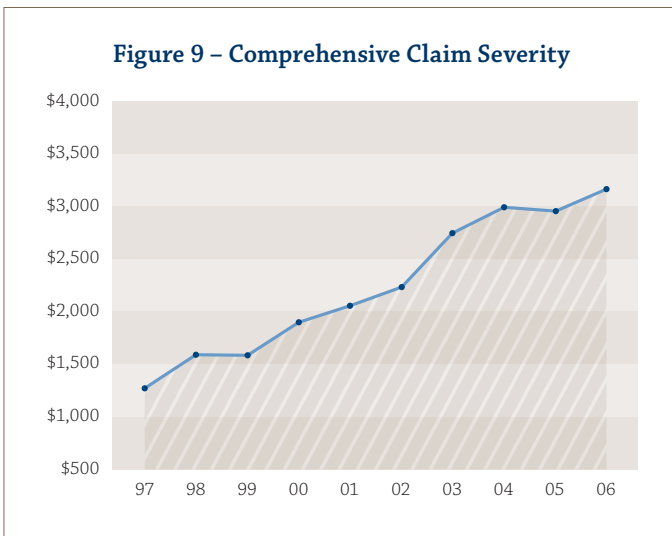


Source: GISA Statistical Exhibit

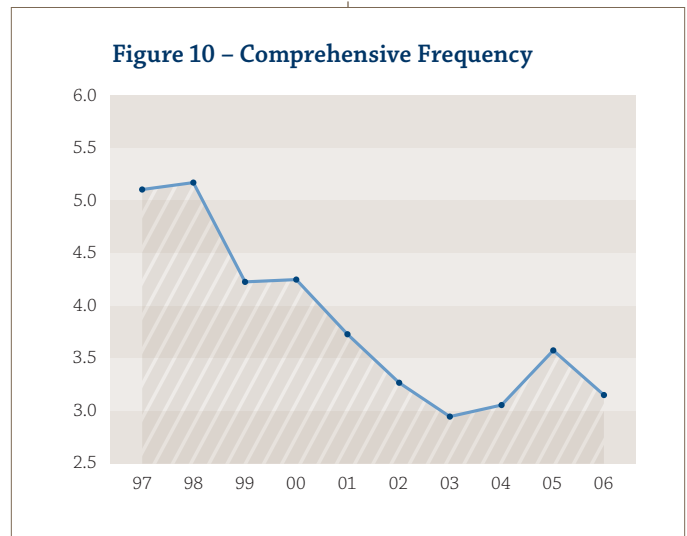


Source: GISA Statistical Exhibit

The average claim cost for comprehensive (other than collision, e.g., theft, vandalism, hail) claims has continuously moved upward to \$3,100 as shown in Figure 9. Figure 10 shows an overall declining frequency of claims that has to some extent offset the impact of increasing severity.

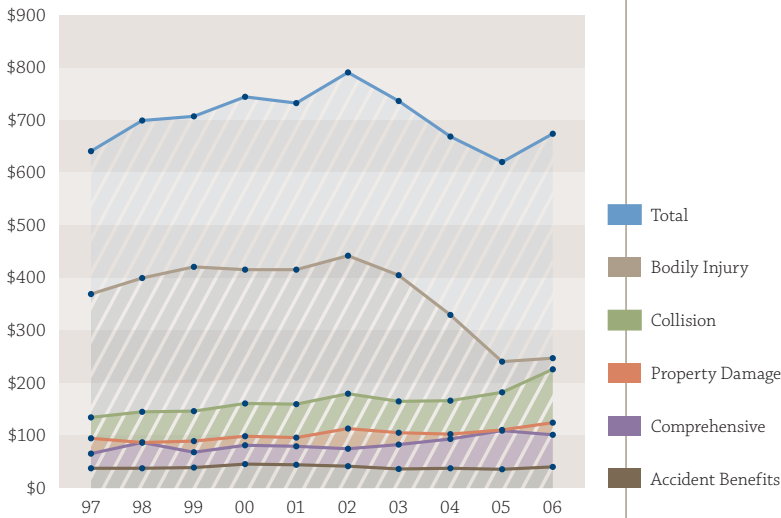


Source: GISA Statistical Exhibit



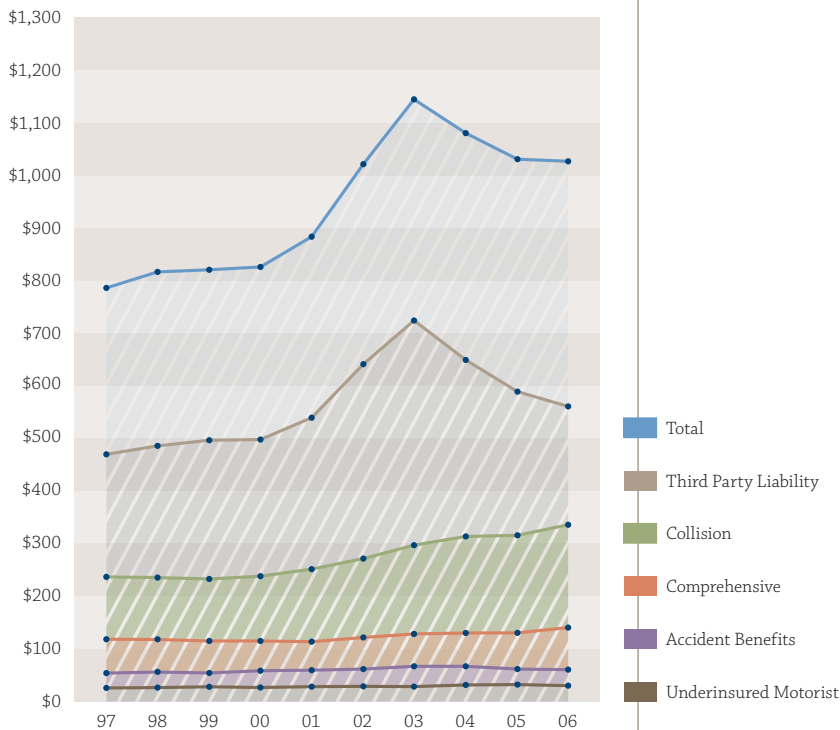
Source: GISA Statistical Exhibit

Figure 11 – Average Claim Cost Per Vehicle



Source: GISA Statistical Exhibit

Figure 12 – Average Premiums By Coverage



Source: GISA Statistical Exhibit

The next graph, Figure 11 shows the average claim cost per vehicle insured, which is the estimated total claims for each coverage and all coverage combined divided by the number of vehicles insured. Average claim cost per vehicle insured reflects the combined effects of severity and frequency of claims.

Finally, Figure 12 shows the average premiums by coverage and in total. The average premiums are the totals for each coverage and in total divided by the number of vehicles insured; they do not reflect premiums for any particular driver profile or any individual insurer.

The principal issues in the market at present are whether drivers with accidents and convictions are paying sufficient premium under the Grid and the outcome of the constitutional challenge to the Minor Injury Regulation that limits non-economic (often referred to as ‘pain and suffering’) awards for less severe sprains and strains. The decision is still pending for the case that was heard earlier in the year. The reductions in premium level that were mandated in 2004 through 2006 were predicated on the savings realized through the Minor Injury Regulation as well the decreasing frequency of claims. Until the final outcome is known, there will be continued uncertainty that could impact competition.

Premiums could increase for both basic and additional coverage over the coming year. Some increase should be expected to reflect the inflation on cost of goods and labour. While frequency has continued to decrease for bodily injury claims, there is some expectation that situation will change and follow the increasing trend that has emerged for third party liability property damage and collision claims. If so, that will place further upward pressure on premiums. Both frequency and severity are increasing for property damage and collision claims as described in connection with Figures 3, 4, 7 and 8.

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Applications for Private Passenger Vehicles

Premiums Regulation	Approved	Subject to Limitation/ Partial Approval	Declined	Total Applications
Section 6	10	3	4	17
Section 10	1	0	0	1
Section 19	14	5	1	20
Total	25	8	5	38

Applications under Section 6 of the Automobile Insurance Premiums Regulation to revise rating programs for private passenger vehicles with respect to third party liability and accident benefits coverage.

Company	Decision Date*	Average Change*
Dominion of Canada General Insurance Company	March 10, 2007	0.0%
Alberta Motor Association Insurance Company	March 14, 2007	0.0%
Millennium Insurance	July 19, 2007	0.0%
ING Insurance/ING Novex	July 19, 2007	0.0%
Trafalgar Insurance Company of Canada	July 19, 2007	0.0%
Coseco Insurance Company	July 19, 2007	0.0%
CUMIS General Insurance Company	August 31, 2007	+5.0%
Co-operators General Insurance Company	August 31, 2007	+6.1%
ING Insurance Company of Canada	September 21, 2007	0.0%
ING Novex Insurance Company	September 21, 2007	0.0%
Trafalgar Insurance Company of Canada	September 21, 2007	0.0%
The Personal Insurance Company of Canada	October 19, 2007	0.0%
Certas Direct Insurance Company	October 19, 2007	0.0%

*Decision Date is date of Board decision, not effective date of rating program.
Average Change does not reflect impact on individual policies.

Applications under Section 10 of the Automobile Insurance Premiums Regulation to establish rating programs for private passenger vehicles with respect to third party liability and accident benefits coverage.

Company	Decision Date*
Liberty Mutual Insurance Company	September 21, 2007

*Decision Date is date of Board decision, not effective date of rating program.

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Notices under Section 5 of the Automobile Insurance Premiums Regulation to revise rating programs for private passenger vehicles with respect to basic coverage (third party liability and accident benefits). Revisions under Section 5 are revenue neutral or occasionally generate a decrease in average premium level.

Company	Review Date	Average Change*
Aviva Insurance Company of Canada	January 24, 2007	-1.2%
Traders General Insurance Company	March 5, 2007	0.0%
Allstate Insurance Company of Canada	April 15, 2007	-0.1%
AXA Pacific Insurance Company	May 1, 2007	0.0%
Scottish & York Insurance Company Limited	May 23, 2007	-3.4%
Aviva Insurance Company of Canada	June 22, 2007	0.0%
Traders General Insurance Company	June 22, 2007	0.0%
Scottish & York Insurance Company Limited	June 22, 2007	0.0%
AXA Pacific Insurance Company	October 1, 2007	0.0%
Canadian Direct Insurance Incorporated	October 2, 2007	0.0%
Dominion of Canada General Insurance Company	December 10, 2007	-0.8%

*Average Change does not reflect impact on individual policies.

Notices under Section 9 of the Automobile Insurance Premiums Regulation to revise rating programs for private passenger vehicles with respect to additional coverage (all perils, collision, comprehensive, underinsured motorist endorsement and other endorsements).

Company	Review Date	Average Change*
Primum Insurance Company	January 9, 2007	+0.4%
Security National Insurance Company	January 9, 2007	+0.1%
TD Home and Auto Insurance Company	January 9, 2007	-0.4%
SGL Canada Insurance Services Limited	January 10, 2007	+1.8%
Aviva Insurance Company of Canada	January 24, 2007	-1.2%
Traders General Insurance Company	March 5, 2007	0.0%
Alberta Motor Association Insurance Company	March 8, 2007	+4.4%
Alberta Motor Association Insurance Company	March 8, 2007	-4.8
Royal & SunAlliance Insurance Company of Canada	May 3, 2007	+0.1%
Allstate Insurance Company of Canada	April 15, 2007	0.0%
Millennium Insurance Corporation	April 17, 2007	0.0%
AXA Pacific Insurance Company	May 1, 2007	0.0%
SGL Canada Insurance Services Limited	May 22, 2007	+1.8%

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Continued from previous page.

Scottish & York Insurance Company Limited	May 23, 2007	+0.6%
Co-operators General Insurance Company	June 12, 2007	+0.3%
Aviva Insurance Company of Canada	June 22, 2007	0.0%
Traders General Insurance Company	June 22, 2007	0.0%
Scottish & York Insurance Company Limited	June 22, 2007	0.0%
Facility Association	June 25, 2007	+2.2%
Security National Insurance Company	June 25, 2007	-0.1%
Primmum Insurance Company	June 25, 2007	+0.4%
TD Home and Auto Insurance Company	June 25, 2007	+0.4%
Alberta Motor Association Insurance Company	July 13, 2007	+0.3%
Allstate Insurance Company of Canada	July 16, 2007	+0.1%
Pembridge Insurance Company	July 16, 2007	+0.2%
Security National Insurance Company	August 14, 2007	0.0%
Primmum Insurance Company	August 14, 2007	0.0%
TD Home and Auto Insurance Company	August 14, 2007	0.0%
The Personal Insurance Company	August 22, 2007	0.0%
Certas Direct Insurance Company	August 22, 2007	0.0%
The Guarantee Company of North America	September 5, 2007	0.0%
Pembridge Insurance Company	September 10, 2007	+0.2%
Lombard General Insurance Company of Canada	September 10, 2007	0.0%
Zenith Insurance Company	September 10, 2007	+0.6%
Unifund Assurance Company	September 19, 2007	0.0%
York Fire & Casualty Insurance Company	September 25, 2007	+0.6%
AXA Pacific Insurance Company	October 1, 2007	0.0%
Canadian Direct Insurance Incorporated	October 2, 2007	0.0%
Wawanesa Mutual Insurance Company	October 2, 2007	+1.2%
Dominion of Canada General Insurance Company	October 18, 2007	0.0%
Alberta Motor Association Insurance Company	October 29, 2007	0.0%
RBC General Insurance Company	November 1, 2007	+15.5%
SGL Canada Insurance Services Limited	November 22, 2007	+3.9%
Dominion of Canada General Insurance Company	December 10, 2007	+0.6%
State Farm Mutual Automobile Insurance Company	December 12, 2007	-6.5%
The Personal Insurance Company of Canada	December 18, 2007	+9.4%
Certas Direct Insurance Company	December 18, 2007	+9.4%

*Average Change does not reflect impact on individual policies.

Applications for other than Private Passenger Vehicles

Applications under Section 19 of the Automobile Insurance Premiums Regulation to establish new or revise existing rating programs for other than private passenger vehicles with respect to third party liability and accident benefits coverage.

Company	Class of Vehicle	Decision Date*	Average Change*
Kingsway General Insurance Company	C	Mar. 14, 2007	+1.2%
Kingsway General Insurance Company	CM	Mar. 14, 2007	New
Alberta Motor Association Insurance Company	C & CM	Jan. 16, 2007	C – +0.0% CM – New
SGL Canada Insurance Services Limited	C & CM	Jan. 8, 2007	-4.9%
Old Republic Insurance Company of Canada	C & CM	Feb. 22, 2007	New
Markel Insurance Company of Canada	C & CM	Apr. 10, 2007	-0.5%
Echelon Insurance Company	PPM	Mar. 14, 2007	New
Federated Insurance Company of Canada	C	Mar. 28, 2007	-0.4%
Primum Insurance Company	PPM	Mar. 14, 2007	+17.8%
Jevco Insurance Company	PPM	Apr. 10, 2007	+4.2%
Federation Insurance Company	CM	Apr. 13, 2007	New
Economical Mutual Insurance Company	CM	Jul. 19, 2007	New
Liberty Mutual Insurance Company	C, CM & PPM	Sept. 21, 2007	New
GCAN Insurance Company	C & CM	Sept. 21, 2007	New
Royal & SunAlliance Insurance Company of Canada	C	Sept. 21, 2007	-3.6%
Dominion of Canada General Insurance Company	C & CM	Oct. 19, 2007	C -7.4%
Markel Insurance Company of Canada	C & CM	Oct. 19, 2007	-0.8%
Alberta Motor Association Insurance Company	C	Nov. 23, 2007	+3.5%
Federated Insurance Company of Canada	CM	Nov. 23, 2007	-15.2%

*Decision Date is date of Board decision, not effective date of rating program
Average Change is for third party liability and accident benefits combined; does not reflect impact on individual policies.

Legend: C – Commercial
CM – Commercial Miscellaneous refers to interurban vehicles, public transportation vehicles, garage risks
PPM – Private Passenger Miscellaneous refers to mopeds, motorcycles, all terrain vehicles, snow vehicles, motor homes.

APPENDIX III STATISTICS

Automobile Insurance Fact Page

	2002	2003	2004	2005	2006
Active Insurance Companies ³	75	76	69	69	67
Market Share for Largest Insurer Groups³					
ING Canada	14.5%	15.8%	15.4%	15.9%	18.5%
Wawanesa	9.1%	10.1%	10.5%	14.2%	13.3%
TD Meloche Monnex*	5.6%	7.1%	9.3%	10.0%	11.0%
The Co-operators	8.9%	8.4%	8.3%	7.6%	8.0%
Total	38.1%	41.4%	43.5%	47.7%	50.8%
* TD Meloche Monnex among top four in 2003 through 2006					
Written Premium⁴					
Total Premium (000s)	\$2,232,976	\$2,545,176	\$2,527,263	\$2,578,293	\$2,751,607
Private Passenger (000s)	\$1,737,589	\$1,964,744	\$1,914,099	\$1,933,286	\$2,055,989
Average Written Premiums for Private Passenger Vehicles⁴					
Basic Coverage	\$691	\$786	\$707	\$639	\$612
Additional Coverage	\$326	\$355	\$369	\$386	\$413
Total	\$1,018	\$1,141	\$1,077	\$1,025	\$1,025
% change from prior year		12.1%	-5.6%	-4.8%	0.0%
Written Private Passenger Vehicles⁴					
Non Grid	n/a	n/a	n/a	87.6%	89.2%
Grid	n/a	n/a	n/a	12.4%	10.8%
# Vehicles Insured	1,707,470	1,722,331	1,778,035	1,885,619	2,006,165
% change from prior year		0.9%	3.2%	6.1%	6.4%
Estimated Total Claims⁴					
All Automobile (000s)	\$1,650,130	\$1,571,742	\$1,468,049	\$1,447,278	\$1,674,740
Private Passenger (000s)	\$1,338,293	\$1,260,884	\$1,169,492	\$1,128,353	\$1,306,083
Minor Injury Cap³	\$0	\$0	\$4,000	\$4,000	\$4,144
(effective October 1, 2004)					

³ Source: Superintendent of Insurance (most recent available data for 2006)

⁴ Source: GISA Statistical Exhibits (most recent available data for 2006)

Board Applications

	2002	2003	2004	2005	2006	2007
Section 6 – Private Passenger Rating Program Review						
Approved	n/a	n/a	n/a	11	7	10
Modified	n/a	n/a	n/a	5	3	3
Declined	n/a	n/a	n/a	3	5	4
Total				19	15	17
Section 10 – Private Passenger Rating Program New Entrant						
Approved	n/a	n/a	n/a	2	0	1
Modified	n/a	n/a	n/a	1	1	0
Declined	n/a	n/a	n/a	1	0	0
Total				4	1	1
Section 19 – Other Than Private Passenger Rating Program Review/New Entrant						
Approved	n/a	n/a	n/a	2	17	14
Modified	n/a	n/a	n/a	0	3	5
Declined	n/a	n/a	n/a	0	1	1
Total				2	21	20
Board Notices						
Section 5 – Basic Coverage	n/a	n/a	n/a	2	6	11
Section 9 – Additional Coverage	n/a	n/a	n/a	7	42	46

APPENDIX IV ACTIVE INSURERS

List of Active Automobile Insurers and Written Premium for 2006

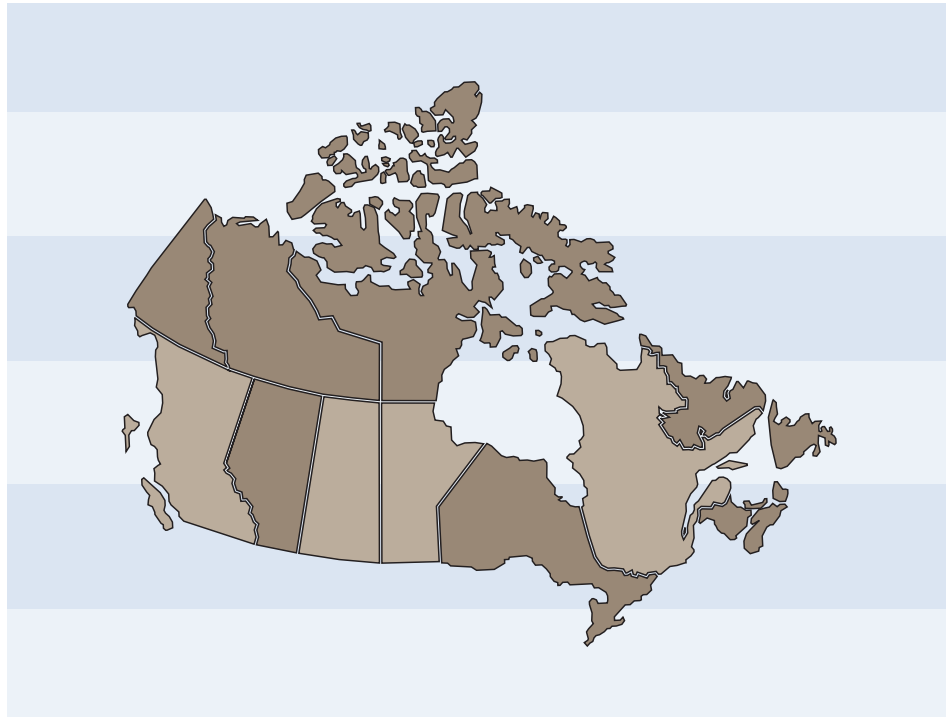
Name of Company	2006 (thousands)		
ACE INA Insurance	\$13,528	Innovative Insurance Corporation	\$3,462
Alberta Motor Association Insurance Company	\$148,658	Kingsway Financial Services Inc.	
Allianz Global Risk US Insurance Company	\$4,688	Jevco Insurance Company	\$7,442
Allstate Canada		Kingsway General Insurance Company	\$30,489
Allstate Insurance Company of Canada	\$54,468	York Fire & Casualty Insurance Company	\$34,525
Pembridge Insurance Company	\$1,240	Liberty Mutual Insurance Company	\$4,735
American International Companies (AIG)		Lloyd's Underwriters	\$3,984
American Home Assurance Company	\$9,799	Millennium Insurance Corporation	\$15,781
Commerce and Industry Insurance Company of Canada	\$535	Mitsui Sumitomo Insurance Company Limited	\$461
American Road Insurance Company	\$946	Motors Insurance Corporation	\$1,615
Aviva Canada Inc.		Northbridge Financial Corporation	
Aviva Insurance Company of Canada	\$129,691	Federated Insurance Company of Canada	\$19,843
Elite Insurance Company	\$8,666	Lombard General Insurance Company or Canada	\$27,955
Scottish & York Insurance Co. Limited	\$2,825	Lombard Insurance Company	\$25
Traders General Insurance Company	\$22,512	Markel Insurance Company of Canada	\$35,806
AXA Pacific Insurance Company	\$64,075	Old Republic Insurance Company of Canada	\$9,201
Canadian Direct Insurance Incorporated	\$32,868	Optimum West Insurance Company	\$5,389
Chubb Insurance Company of Canada	\$1,665	Peace Hills General Insurance Company	\$61,880
The Co-operators		Portage La Prairie Mutual Insurance Company	\$18,379
Co-operators General Insurance Company	\$201,227	Protective Insurance Company	\$271
Coseco Insurance Company	\$11,808	RBC General Insurance Company	\$14,189
Sovereign General Insurance Company	\$13,993	Royal & SunAlliance Insurance Group	
Continental Casualty Company	\$4,075	Ascentus Insurance Ltd.	\$1,918
Cumis General Insurance Company	\$5,590	Royal & SunAlliance Insurance Company of Canada	\$67,866
DaimlerChrysler Insurance Company	\$2,481	Unifund Assurance Company	\$108,171
Desjardins General Insurance Group		Sentry Insurance A Mutual Company	\$85
Certas Direct Insurance Company	\$4,713	SGI CANADA Insurance Services Ltd.	\$1,893
Personal Insurance Company	\$29,805	St. Paul Fire and Marine Insurance Company	\$17,803
Dominion of Canada General Insurance Company	\$98,646	State Farm Mutual Automobile Insurance Company	\$89,640
Echelon General Insurance Company	\$113	TD Meloche Monnex	
The Economical Insurance Group		Primum Insurance Company	\$61,364
Economical Mutual Insurance Company	\$98,249	Security National Insurance Company	\$221,053
Waterloo Insurance Company	\$7,500	TD Home and Auto Insurance Company	\$27,686
Fortress Insurance Company	\$915	Tokio Marine & Nichido Fire Insurance Co. Ltd.	\$223
Guarantee Company of North America	\$507	Wawanesa Mutual Insurance Company	\$377,331
Hartford Fire Insurance Company	\$88	XL Insurance Company Limited	\$39
ING Canada		Zurich Insurance Company	\$54,192
ING Insurance Company of Canada	\$466,096		
ING Novex Insurance Company of Canada	\$43,614		
Nordic Insurance Company of Canada	\$4,816		
Trafalgar Insurance Company of Canada	\$13,040		

Source: Superintendent of Insurance 2006 Annual Report

NOTES:

- Province of Quebec and British Columbia have mixed systems.
- Province of Quebec has public delivery system for bodily injury coverage and private delivery system for other coverage.
- British Columbia has public delivery system for third party liability and accident benefits coverage. Consumers can choose between public and private delivery systems for optional coverage.

Automobile Insurance Delivery Systems at a Glance



- Private Delivery System
- Public Delivery System

Alberta

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